

INFORMATION REPORT

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SOURCE EVALUATIONS ARE DEFINITIVE. APPRAISAL OF CONTENT IS TENTATIVE.

- Attached is a four-page report on the Hungarian National Cooperative of Small Industries (OKIIS) that contains information on the following subjects: OKIIS functions and production data, wages of OKIIS workers, import of raw materials for OKIIS industries, examples of sales difficulties within the East Bloc, and liquidation of private small firms.
- It is believed that this report will be of interest primarily to economic analysts

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HUNGARYECONOMICHungarian Small Industry (OKISZ)

Thirty-five per cent of the total industrial output in Hungary is produced by the small industries subordinated to OKISZ (Orszagos Kisipari Szovetkezet - National Small Industries Co-operative Association). This Association functions as a Ministry and its President, Jozsef ERDÖS, holds the rank of Minister.

2. The OKISZ small industries produce cheaper and better quality goods than the general industry. Production costs work out at 50% for raw materials used, the remaining 50% covering wages and all overhead expenses. In the general industry this ratio works out at one third for raw materials, two thirds for wages and overhead expenses. General industry nevertheless always receives preferential treatment from Government and planners.

3. Workers in OKISZ industries earn on an average 20-25% more than factory workers. Their annual bonuses, known as "dividends", amount to approximately three to four months' earnings. The average factory worker's annual bonus (known in his case as "profit sharing") does not amount to much more than the equivalent of one to two weeks' wages.

4. Production of the OKISZ industries is naturally co-ordinated with that of the general industry. The latter's interests, however, always prevail, which results in frequent confusion.

(Thus: under the third quarter plan in 1959 an order was placed with OKISZ for 500,000 Kgs of PVC grey, synthetic clothing material (the grey colour was important as waste material can be used in its manufacture, thereby halving production costs). A

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placed with general industry, OKISZ at the same time receiving instructions to manufacture synthetic tubes. As production had already been geared for the manufacture of the clothing material, OKISZ carried on with it, producing however coloured instead of grey PVC material for which there is always a ready market abroad. Arrangements, however, had to be made for the production of the synthetic tubes as well, resulting in considerable confusion in the two sectors of the industry.)

5. PVC material is imported from the U.S.S.R. *by HUNGARY*

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In 1959 the quarterly quantities involved were 5-6,000 tons from the U.S.S.R. 1,800-2,000 tons (i.e. a ratio of approximately 3:1). The raw material is of excellent quality, and has the appearance of crystalline powder; the Soviet material is of an inferior quality and rougher consistency. The OKISZ industries pay 13.65 Forints per Kg for PVC raw material, whether of Soviet origin.

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6. Imports of Polyanil and Polycetilane represent about a tenth of the quantity of PVC imported.

7. The manufacture of synthetic materials is handicapped by insufficient or imperfect raw materials, as well as bad planning and mismanagement. A chronic shortage of foreign currency prohibits the import of better quality raw materials from Western countries. The chemical industry cannot keep pace with the required production of synthetic raw materials. Plans are now being elaborated for the manufacture of raw PVC at PET, but initial output is not expected to exceed six hundred tons per annum. The necessary machinery for the chemical industry was obtained from Czechoslovakia and East Germany in 1958, but for reasons unknown has not yet been assembled. The quality of this machinery is poor.

8. Only about 10% of the home demand for synthetic cloth can be supplied by industry.

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9. Raw materials allocated to industry are sold at different prices to the general industry, OKISZ industries and trades and craftsmen, the former receiving them on the most advantageous terms. The re-phasing of raw material prices at the beginning of 1959 has had little effect in improving the ensuing anomalous situation.

10. It frequently happens that the Russians cancel orders at the last moment when goods have already been manufactured. A typical case occurred in 1954 when the Russians suddenly refused acceptance of two million shirts, not because they were below the required standard, but because they had "made arrangements elsewhere". The shirts were eventually sold to Belgium for re-export to Africa at very considerable loss. This incident is still talked of as a warning to HUNGAROTEX planners.

11. A more recent case occurred in 1958 when the Russians refused acceptance of one million pairs of gloves on the grounds of inferior quality. At the same time they instructed the Roumanians to take over the consignment.

12. Incidents such as these are quite common with other Soviet Bloc countries. The strictest buyers are the Russians, followed by the Czechs. It has become an established practice among the Satellite countries to cheat one another in this type of business. When serious differences arise they are settled either by Russian intervention, or between high Party officials of the two countries concerned. Frequent differences of this nature occur between Hungary and Roumania and to a lesser extent Bulgaria. In all cases Russian wishes are accepted as unquestionable orders. No-one will dare refuse to take over inferior quality goods from the Russians or, on their instructions, from other countries. This Soviet practice of otherwise disposing of goods ordered, thus freeing Soviet trade of all commercial risks, is the cause of a great deal of the confusion prevailing in Satellite industries, and of very considerable financial losses.

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13. In general the Hungarian textile industry will try to satisfy Soviet requirements with inferior quality goods, retaining the highest quality goods for export to Western countries with a view to obtaining precious foreign currency.

14. In 1959, owing to over-production in general industry, some branches of the OKISZ industries were forced to reduce output by 30-40% in order to avoid a surplus. This applied mainly to finished clothing. Normally the demands of the home market for these goods are satisfied by general industry, while the OKISZ industries work for export where existing trade agreements permit this. In 1959 this was not the case; hence the reduced production and re-phasing.

15. MASZEK (private small firms) continues to be liquidated. Thus, in 1959 no private firm was permitted to manufacture PVC synthetic cloth. On liquidation equipment owned by the firm, if under the value of 50,000 Forints, is valued by experts of the "MUSZAKI BIZOMANYI ARULIZ" (Technical Commission Shop) and, if the owner elects to join the OKISZ industries, he is entitled to the assessed value. (Craftsmen usually let their wives join the OKISZ industries, while they themselves try to stay on in private business, manufacturing goods not yet on the prohibited list.) If the equipment is worth more than 50,000 Forints, a valuer from the Ministry concerned will assess it. According to law compensation must be paid within three years of the date of liquidation. Owing to the prevailing practice of corruption, it is possible to obtain this compensation within three months. Similarly, valuers are often bribed by owners to raise the value. Corruption is widespread in everyday business life, and on the increase. Officials will do almost anything to line their pockets, despite all rules and Party slogans.

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